



4.2B

DEPARTMENT OF
PUBLIC WORKS

CITY OF SACRAMENTO
CALIFORNIA

1023 J STREET
ROOM 200
SACRAMENTO, CA
95814-2700

REAL ESTATE

November 6, 1996

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City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: POLICE DEPARTMENT HEADQUARTERS LEASE AGREEMENT

LOCATION AND COUNCIL DISTRICT:

Previously the Bank of America Headquarters Building, 900 Eighth Street, District 1.

RECOMMENDATION:

This report recommends that the City Council, by resolution, authorize the City Manager to execute a Lease Agreement with the County of Sacramento to lease the land and building at 900 Eighth Street.

CONTACT PERSON:

Bruce J. Alei, Real Property Supervisor,
264-5055

FOR COUNCIL MEETING OF: November 12, 1996

SUMMARY:

This staff report recommends approval of a Lease Agreement with the County of Sacramento to lease the subject property for the City's Police Department Headquarters. Negotiations have progressed over the last several weeks resulting in the proposed Lease Agreement.

The lease terms and conditions provide for an unserviced lease with rent sufficient to cover the County's debt service on its \$7.2 Million acquisition cost, insurance cost, management services cost, and one percent (1%) of the purchase price as an annual



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use allowance charge (\$72,000) to provide for maintenance of the buildings major systems and structural elements which will be the County's responsibility. The proposed lease with the County is for a six-year term with a one-year option for renewal. The rent commencement date is February 1, 1997.

BACKGROUND INFORMATION:

The Hall of Justice building, built in the early 1900's, is suffering from major structural, seismic, plumbing, and electrical dilapidation. Extensive repair work is not cost effective due to the building's age and functional obsolescence. In addition, the building is grossly undersized for the amount of staff presently occupying it.

On May 28, 1996, the City and the County entered into a Memorandum of Understanding evidencing the intent of the parties with respect to the premises (City Agreement No. 96-072 attached as Exhibit A). The City's Real Estate Services Section was directed to negotiate a lease agreement with the County under the parameters stated in the Memorandum of Understanding. If the proposed lease is approved, the Bank of America building (B of A) will house the Police Administration staff currently at the Hall of Justice building and the Narcotics Division leasing space at Bercut Drive.

According to the City standards for space requirements, the B of A building is adequate for the Police Department's needs for the short-term. Based on projected increases in the Police Department's staff, they will need to be relocated again in approximately six years. This proposed lease agreement is mutually beneficial to the City and County. It will solve the Police Department's immediate need, and the County's long-term need for future expansion of their administrative facilities.

FINANCIAL CONSIDERATIONS:

During the initial term and any extended term of this lease, City will pay a projected base monthly rent of \$55,033. In addition, during the initial term and any extended term of this lease, City will pay monthly, as a monthly use allowance, \$6,000 (1% monthly use allowance). Also, during the initial term and any extended term of this Lease, City shall pay monthly, as reimbursement to County for property insurance costs, \$936, and a management services charge of \$300. These cost items were agreed to between the parties in the Memorandum of Understanding.

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The total of the base monthly rental rate, the 1% monthly use allowance, the property insurance reimbursement, and the management services charge is the total monthly rental rate.

Accordingly, the net monthly rental rate during the initial term and any extended term of this lease is projected to be \$62,000. The total project budget is described in detail in the staff report accompanying this agenda item.

The County has agreed to finance, for the benefit of the City, the principal sum of \$1,200,000 to be used by the City for construction of tenant improvements that are strictly for the benefit of the City. The tenant improvement financing shall be paid back over the firm term of the lease (6 years) with fully amortized payments estimated to be \$20,333 per month. The total monthly rent is projected to be \$82,333 per month.

In the event that the actual debt service of the County's bond financing for acquisition of the premises and/or for the tenant improvement loan differs from the base monthly rental rate and tenant improvement payments shown above, these payments will be adjusted, either upward or downward, to reflect the County's actual monthly debt service costs. An amendment to the agreement will be used to effectuate any rate change necessary due to actual bond financing terms.

The County intends to issue bonds within the next 12 months. They would like this latitude in order to obtain the most favorable market interest rates and terms. The County has agreed to include a member of the City Treasurer's Office on the County's financing team to review and comment on the financing structure used to finance the acquisition and tenant improvement costs.

ENVIRONMENTAL CONSIDERATIONS:

The project is exempt from the California Environmental Quality Act (CEQA) under Section 15301(a) since this activity involves moving the operation of an existing facility to the project, and no expansion of use beyond that existing.

POLICY GUIDELINES:

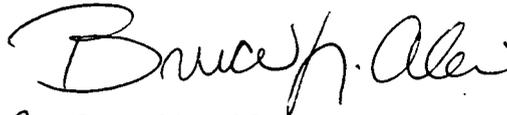
This item conforms with City policy, in that the proposed lease will provide office space for the Police Department close to the County Courthouse, Jail, and City Hall, as shown in the location map attached, identified as Exhibit B.

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MBE/WBE:

None. No goods or services are being purchased.

Respectfully submitted,



FOR Gary Alm, Manager
Real Estate & Special Districts

RECOMMENDED FOR APPROVAL: APPROVED:



WILLIAM H. EDGAR
City Manager



Michael Kashiwagi, Director
Public Works, Technical Services

Attachments: Exhibit A
Exhibit B

11.696
RES6-06.CRE

MEMORANDUM OF UNDERSTANDING FOR COOPERATION IN REAL ESTATE NEGOTIATIONS

The undersigned parties desire to enter into an understanding to cooperate in negotiating for the purchase of the real property located at 900 8th Street in the City of Sacramento (the Bank of America building) under the following terms:

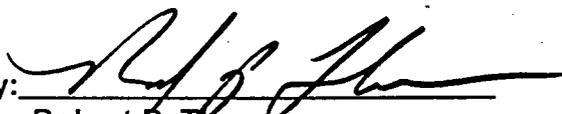
1. County of Sacramento shall enter into negotiations for the purchase of the 900 8th Street property from the Bank of America.
2. City of Sacramento has indicated it may lease the property for use as its Police Department headquarters upon acquisition by the County. The lease terms and conditions shall be mutually agreed and acceptable to the County and the City, and shall provide for an unserviced lease with rent sufficient to cover the County's debt service on its acquisition cost, together with a reasonable allowance for the County's expenses for insurance, landscape and parking lot maintenance, management services, and a reasonable use allowance charge to provide for maintenance of the building's major systems.
3. During the time that purchase negotiations between the County and the Bank of America are in process, the City agrees and understands that the County is the exclusive negotiating party. The City agrees to not separately negotiate or discuss the purchase or lease of the 900 8th Street property with the Bank of America or with any other entity that may enter into purchase negotiations with the Bank of America.
4. During the time that the County is engaged in purchase negotiations with the Bank of America, the City may enter into negotiations for the lease or purchase of other property intended to be used as its Police Department headquarters provided however that the city will notify the County of its intended Police Department headquarters site on or before July 1, 1996.
5. This Memorandum of Understanding shall terminate upon the close of escrow for purchase of the 900 8th Street property by the County or any other party. This Memorandum of Understanding shall also terminate in the event that the County and the Bank of America are unable to reach agreement on the terms and conditions of a purchase of the Bank of America building and it has been determined that further negotiations would not be productive.
6. Each party agrees to operate under this Memorandum of Understanding with the concurrence of their respective political body - the Board of Supervisors and the City Council.
7. Nothing in this Memorandum of Understanding shall be construed as a binding agreement; this Memorandum is an expression of policy, and of the intentions of the parties.

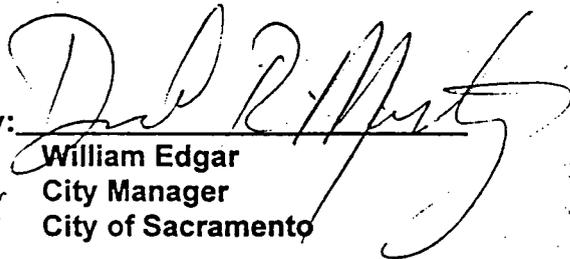
SPECIAL PROVISIONS:

1. The City/County lease will be for a six-year term with an option to extend for an additional one-year term. City agrees to give County 18 months advance notice of its intention to exercise said option.

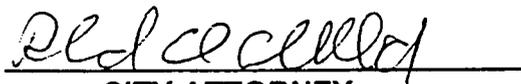
2. County agrees to disclose to City all terms of the purchase agreement, financing arrangements, appraisal, structural inspection report, maintenance & operating costs, and all other pertinent data upon City's request prior to and throughout the term of the lease.
3. The Bank of America building is to be delivered to City in a good tenantable condition to City's satisfaction.
4. City shall have the option of either providing its own general services maintenance and grounds maintenance in accordance with standards agreed to by City and County, or have said maintenance provided by the County. In the event that the County provides maintenance, the general services maintenance cost (including a 3% cost of living increase) will not exceed an average of \$251,575 per year and the grounds maintenance cost (including a 3% cost of living increase) will not exceed an average of \$13,544 per year over the 6-year term.
5. The bond financing of the purchase price will be structured in the same manner as set forth in County's memorandum to City dated May 10, 1996 (see Attachment).
6. The total annual Use Allowance charge identified in Paragraph 2 of this memorandum shall not exceed 1% of the offering price of \$7.2 million.
7. Rent start date shall be mutually agreed to by both parties.

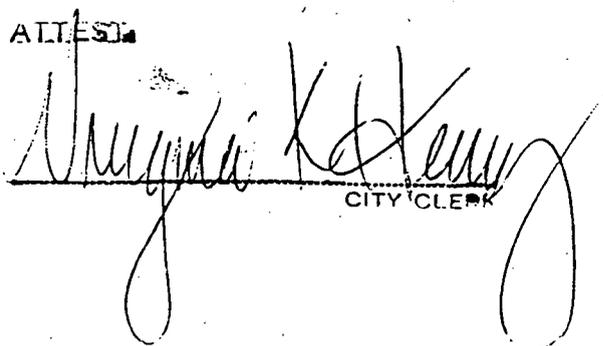
AGREED:

By: 
 Robert P. Thomas
 County Executive
 County of Sacramento

By: 
 William Edgar
 City Manager
 City of Sacramento

APPROVED AS TO FORM:


 CITY ATTORNEY

ATTEST:

 CITY CLERK

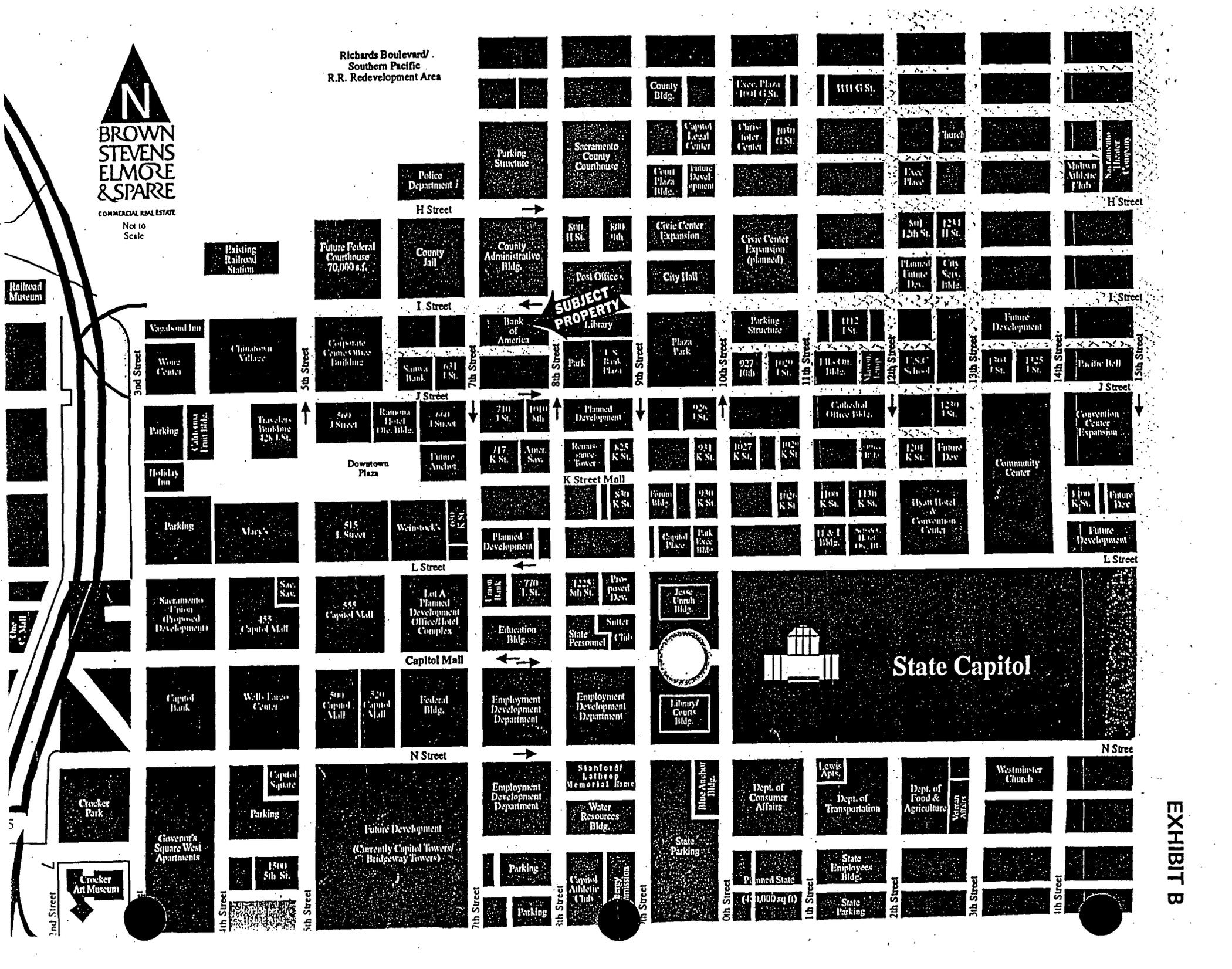
N
BROWN STEVENS ELMORE & SPARE
 COMMERCIAL REAL ESTATE
 Not to Scale

Richards Boulevard/
 Southern Pacific
 R.R. Redevelopment Area

SUBJECT PROPERTY

State Capitol

EXHIBIT B



RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION AUTHORIZING EXECUTION OF A BUILDING LEASE AGREEMENT WITH THE COUNTY OF SACRAMENTO TO LEASE OFFICE SPACE AT 900 EIGHTH STREET

That the City Manager, contingent upon City Manager's acceptance of the building, is hereby authorized to execute the attached building Lease Agreement and all associated documents, agreements, and amendments necessary to effectuate this lease with the County of Sacramento to lease office space at 900 Eighth Street, in Sacramento.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

